

CHAPTER VII

Profits

THE PROFIT MOTIVE, SO OFTEN MALIGNED, IS ACTUALLY A TREMENDOUS FORCE FOR GOOD, AND PROFITS ARE ABUNDANTLY JUSTIFIED.

A man going into another country, called his servants and delivered unto them his goods. Unto one he gave five talents, to another two, to another one; unto each according to his ability. Straightway he that received the five talents went and traded with them and made another five talents. In like manner he that received the two gained another two, but he that received the one went away and digged in the earth and hid his lord's money.

After a long time the lord of these servants cometh and made a reckoning with them, and he that received the five talents came and brought other five talents, saying "Lord thou deliveredst unto me five talents; behold I have gained beside them five talents more." His lord said to him: "Well done, good and faithful servant; thou hast been faithful over a few things, I will make thee ruler over many things. Enter thou into the joy of thy Lord."

He also that had received two talents came and said: "Lord, thou deliveredst unto to me two talents: behold I have gained two other talents beside them." His lord said to him: "Well done, good and faithful servant; thou hast been faithful over a few things, I will make thee ruler over many things. Enter thou into the joy of thy Lord."

Then he that had received the one talent came and said: "Lord, I knew thee that thou art a hard man . . . and I was afraid and went and hid the talent in the earth: lo, there thou has what is thine." And his lord answered and said unto him: "Thou wicked and slothful servant . . . thou oughtest to have put my money to the bankers and then, at my coming, I should have received back mine own with interest. Take away therefore the talent from him and give it unto him that hath ten talents—and cast ye out the unprofitable servant into the outer darkness."

—Gospel, According to St. Matthew

WE HAVE thus far said nothing about profit, for this is another one of those ambiguous words which has no precise meaning and is better left alone.

Profit is simply a loose term by which we mean an excessive return in any of the three categories of rent, wages, or interest. If you own real estate which, leased at a thousand dollars, brings a good return; but, if by some fortunate circumstance, you can lease it for two thousand dollars, you say it is profitable; but you are really getting an excessive rent. If, when money

is worth five percent, you can loan yours at ten, you are securing abnormally high interest, thanks to foresight, sagacity or luck. If employed in a shop at five dollars a day you have the wit to develop an enterprise of your own, which will net you ten dollars a day, you will certainly find it profitable to make the change; but what you are doing is to earn higher wages by initiative, brains, or ingenuity.

There are unfortunately other ways in which you can make profits. You can buy securities three for a penny and peddle them out to the public at a thousand dollars per, and then probably go to prison. Or you can bet which color will come up or whether it is odd or even or which quadruped can run the fastest or whether consolidated goes up or goes down, or you can do a hundred things. Possibly you can kidnap an heiress for ransom or rob a bank. Call the proceeds of such adventures profits if you like; but they are a thing apart from present discussion, and somehow in the long run we generally don't find much enduring profit in them.

Another way in which a profit may sometimes be made is to buy a piece of land, or an old rookery, in the heart of a great city. Hold it indefinitely, letting it become a breeding place for vice, crime, and disease; but meanwhile see it continually advance in market price. Then sell it at a huge profit and you will make the unearned increment, a profit unearned and for which you have given no return whatever. This is perhaps one of the most glaring ways of making unjustified profits which is common today, but of this much more will be said later when we come to questions of land and taxation.

A common definition is "any gain or advantage," but such a definition would include wages and interest. Profit by this definition covers all the earnings of labor, which is confusing if we're to analyze these matters and understand them. In popular use, "profits" includes all income beyond what is spent in operation of the business, covering everything from which dividends and reserves may be met. This definition does not, however, include interest, for as interest is commonly understood, it is not profit but an expense. Yet interest and dividends are often very similar, for both are return on capital and in their nature are essentially the same. Distinctions are more a matter of business detail than of economics. The differences are:

- (1) Interest is generally paid to creditors who loan funds to provide capital, while dividends are paid to those who themselves provide capital.

- (2) Interest is generally agreed upon at a fixed rate, whereas dividends are fixed by earnings.
- (3) Interest may legally have a priority claim and be paid before dividends.
- (4) If interest is not paid, the creditor has generally a claim on the assets of the business prior to claims of stockholders.

A careless definition of profits often implies that profits are unearned, an idea conducive to unsound and dangerous thinking. A writer in a religious periodical says: "The corporation's chief purpose is to make as large profits as possible for the owners—in other words, its aim is to get something for nothing." The vicious implications of such language are obvious, and there is not a particle of truth in the statement, for the owners of a business supply the tools and equipment which constitute capital and which enable workers to produce and to earn. How is the factory produced? How is machinery acquired? How is the business financed during its early development when income is negligible and expenses high? Such teaching as this is a direct result of failure to grasp the fact that *wages and interest are both the earnings of labor*, and this blindness leads to an attempt to belittle capital and to condemn the interest it earns. Wages are compensation for today's labor: interest the compensation for labor performed in the past as we have seen in the case of the fisherman's boats.

One form of profit not easy to classify is a return for which the recipient gives no value whatever in exchange, no *quid pro quo* as the lawyers put it, as when land is bought in hopes of garnering a profit from what the economist calls the "unearned increment." Population grows and increased numbers bring increased demand for land and higher prices, or the government makes public improvements paid for by all the taxpayers, increasing the value of the land, which increase is pocketed by the landowners. Such profits are reflected in higher rents—ground rent the economist calls it, for this true rent is paid for *tenure of the land only*.

That this unearned increment pocketed by the landowner is unearned is beyond dispute, but we have little patience with those who talk about "robber landlords" and "thieving speculators." The personal appropriation of what the community pays for is no more their fault than it is your fault or mine. It is our established system: they play the game according to accepted rules,

and can we blame them? Furthermore, in order that landowners shall be fully protected in the full enjoyment of all the improvements that they make—the buildings they erect, the orchards they set out, the wells they drill, the grading that they do, the roads they construct, and a hundred other things—it is necessary that title and tenure be respected.

Today the income from these things is very heavily taxed. These things are justly private property and belong wholly to those whose labor has produced them; and, if they pocket the unearned increment, it may be viewed as partial compensation to the landowner for an iniquitous tax system which often prevents his putting his holding to productive use. Here we only touch on these subjects, which will be more fully discussed when we come to questions of taxation and particularly the taxation of real estate.

Mr. Truman's concept of profits is illustrated by some of his statements during his attempted seizure of the steel industry. He cited as profits of the steel companies figures *before they paid taxes*, thereby multiplying earnings of the companies by six, for taxes take about five times as much as the owners receive. Why taxes should not be treated in bookkeeping just as are all other expenses—wages, raw materials, etc.—it is hard to see. Mr. Truman could have made an even better case if he had taken as profits, all the receipts of the companies before they paid for raw materials and wages, as well as taxes! We think of profits however we define the word, as profits *to the owner* and not as profits that one man earns and another gets. Surely no honest man can say that profits of a business include money seized by the government and which the owners of the company never see.

It seems to be the fashion among many to decry the profit motive. Politicians, demagogues, visionaries, cranks of every stripe, and even great divisions of the church which calls itself Christian, unite in execrating it. In a popular poll, only two in five believe that the profit motive is essential in our industrial life, though why men should continue to work in its absence they don't explain. Do away with profits, for the profit system is always evil, self-seeking and unscrupulous! What is the maligned profit motive of which we hear so much today?

In a recent radio program, a woman made a statement illustrative of the confused and warped view which many hold regarding profits. She said, "Our economic system, in which the profit motive is still a controlling factor, works terrible inequalities and injustices, so that in peace-time one third to one half

of our brethren live miserably in slums with insufficient food and clothing."

We wonder why she blames the "profit motive." Had she ever read the parable of the talents and does she condemn the servants who made one hundred percent profit and won the commendation of the Master? Many give these snap judgments without study or thought and all too often the thoughtless seize on them and accept everything that they are told.

If the well-meaning but economics-ignorant speaker had studied the question, she would have found that the major cause of poverty, which distresses her and all right-minded people, lies in the free opportunity denied to many to earn the profits to which she so strenuously objects, often because of land monopoly and crushing taxation, imposed in a way that stifles business and kills jobs, as we show in later pages. Such attacks as hers on legitimate and praiseworthy industry, condemning the commendable profit motive which gives incentive to all, certainly do not help.

Note too her statement about a third to a half of our people suffering from insufficient food and clothing. Where does she get her figures? They have been passed around and quoted and re-quoted, but have they ever been verified? More will be said on this matter of statistics which are only wild guesses, and we believe that these estimates fall in this class. Presumably, if there is such a proportion of our people ill-fed and ill-clothed, it is a matter largely of inflation and taxation; and these are matters which will not be helped by abusing the profit motive, which gives the urge to production. If the speaker is sincere in wishing to do something to better the situation regarding food and clothing, she might well oppose farm programs and tariffs, both of which, as we shall show, are deliberately devised to increase the cost of living, and taxes on houses, swelling living costs enormously. These are among the major causes of poverty and suffering.

When you and I plant a garden, why do we bury the seed in the ground? Why labor with brain and muscle? Why wear ourselves out teaching, training, supervising workers, often shiftless and indifferent, so that they may be encouraged to use what ability they have to make a living? Why invest our own labor and the savings of years of toil in an enterprise which is often, at best, a gamble? Why lie awake nights, thinking, planning, working to organize a new industry, to develop a new process, or to invent a new tool? Is not our incentive nearly always the

hope of profit in higher wages or interest on capital? Is there not inborn in each one of us an urge to better our condition and to provide for those near and dear to us?

To some of us this expectation of profit is a far more powerful incentive than any vague dream of some hazy social benefit, conceived and planned by some official. The hope of profits is one of the most impelling things in the heart of man, and no one can condemn it. No one should do other than encourage and praise the man who seeks the well-merited reward of honest labor, which makes it possible for him to care for his family and himself, and perhaps provide reasonable relaxation, culture and pleasure and the higher things of life. The profit motive is a force which lifts humanity and makes for progress and provides guidance, leadership, and stimulus for many a drifter. Any good quality may be carried to excess, and the lust for profit may be a temptation to evil and a synonym for greed, avarice, or stealing; but the desire for profits in itself is a stimulus to ambition, a spur to achievement, and a force for good.

Some say the best work is seldom inspired by the expectation of profit and that those who engage in the highest labors seldom have an eye on the reward. Homer did not write for royalties, the prophets of Israel were not on the payrolls of the government, and Washington was not seeking a salary. Today a large part of the work of scientists, teachers, and writers, and of many a professional man, is done without a thought of profit, but don't overlook an important point. There is a line to be drawn between these higher activities of mankind and the everyday occupations of trade, business, and labor. Can we expect the same consecration of spirit and idealism which inspires a great painting, an epic poem, or the measurement of the distant stars, to inspire the making of galoshes, the picking of potato bugs, or the scavenging of the filth of a great city? The dreamer, the poet, the artist, the scholar, or the true scientist will do his work regardless of pay envelopes—although a profit motive enters into even such undertakings more often than many imagine—but the shoemaker, the miner, and the man who lays the drains, or even those who shoulder the responsibilities of management seldom will. We quote again Dr. Osler's definition of happiness, for it is worth remembering, "Doing congenial work well and getting paid for it"—and don't forget that last clause!

There is an urge to the higher aspirations which cannot be rated in money; but, in the humdrum lives of most of us, things are too inextricably mixed up with shoeing the children, paying

the milk bill, and keeping the butcher quiet. We must reckon with a profit motive. To do away with this incentive would paralyze initiative, ambition, and progress. Christ himself commended the wise trader.

The essential weakness of socialism and communism is that these creeds deny to the worker the reward which his work should bring. He does not directly profit by what he produces, but it goes into the general fund to be shared by producers and non-producers alike. That this kills progress we learned only too well very early in the history of our country. The first two permanent English colonies on this continent were established on the plan of communism; and, as long as this continued, both failed tragically; and, had it not been for wise reforms, these two pioneer posts of English civilization in the new world would have perished.

One angle of this question was recently brought out in conversation with an old and valued friend. Decrying the "profit motive," she expressed a hope for the time when "production will be for service and not for profit"—a phrase we often hear but which means little. All production is for service.

What better gauge can we have of the value of service than the price it commands? Generally the earnings of labor are an indication of the value of service rendered, and the Rotarians are right when they say that he who serves best profits most. It is true that we often disagree in our appraisals: the writer questions if ball players and prize fighters merit the rewards they receive; but this is a matter of opinion, and the public is willing to pay them as it does. Are not these, the rank and file of our people, those who should say what service they value the most? Is there any better standard by which service can be judged than the opinion of the people?

Profit is simply a loose term by which is generally meant an excessive return in any of the three categories, rent, wage or interest. If you own a piece of property which, leased at \$1,000, brings you a good return on what it cost, and if, by some fortunate circumstance, you get \$2,000 a year for it, you say it is profitable. In reality, you are simply getting an excessive rent. If, when money normally earns five percent interest, you can lend yours out at ten percent, you are securing an abnormally high interest, thanks to foresight, sagacity, luck, or perhaps greed. If you are employed in a shop at ten dollars a day and have the wit to develop an enterprise of your own which will net you twenty dollars a day; or if, by studying nights, you can

train yourself for some higher calling, and earn a hundred or a thousand dollars a day, you are earning higher wages by initiative, brains, and ingenuity.

In one case the owner of a large department store thought that he was doing a fine business and making good money. He had never taken the trouble to analyze where the profit, as he called it, came from. In the course of time he had an offer for his store. Studying the question and analyzing his receipts, he found that he could sell his building and the land it occupied, for enough, if invested wisely, to yield as large an income as he had been deriving from his business. He could retire with none of the labor and anxiety of running the store and be actually better off.

The explanation is simple. The land on which the building stood had increased tremendously in value. He had never taken the trouble to study his business properly and to recognize that the value of his land was his greatest asset. Actually, what he thought was profit from his business was more correctly rent, for if the site of the business had been owned by someone else, and he had paid rent for it, he would have been "in the red."

There are, unfortunately, some ways in which we can make profits which do not fall in any of these categories. You can buy "securities" three for a penny and peddle them to the public at \$1,000 per, or you can bet which color will come up, or whether it is odd or even, or which quadruped can run the fastest, or whether Consolidated Hot Air common will go up or down. Perhaps, if your talents lie in that direction, you can kidnap an heiress for ransom or hold up a bank. Call the proceeds of such adventures profits if you like, but they are a thing apart from present discussion; and, in the long run, we generally do not get much enduring profit from them.

A term frequently found in economic writings is "entrepreneur" or in English, "enterpriser," by which is meant what we call in everyday language the promoter or organizer of a business. The returns which he garners are often regarded as profits, but these people often perform many functions. They organize, promote, and enlist the support of others. They often invest money themselves in the capital of the company, and frequently they hold positions in the new enterprise. Generally what they get is a wage for work done, plus perhaps interest on capital in which they have invested, but there is something else which may enter into the picture which we may call payment for risk incurred. Turn back to our example of the fishermen and consider the

fishing captain who does the organizing and managing and takes the risks. Very probably he secured the boat and made the deal with the owner. He is an entrepreneur and earns and deserves more than his fellows, for he does all the planning and worrying and *takes the chances*. His share of the earnings is in part wages for his foresight, enterprise, and courage because of the possibility of loss.

If we have an opportunity to invest in two different enterprises, one almost sure and the other hazardous and speculative, we will invest in the former and not in the latter, unless it may be expected to give us, if it succeeds, much higher returns than the well-established business. We hope that the hazardous one will pay us 20%, while the safe investment is pretty sure to pay 4%, but no more. In that case we may say that the higher interest is payment for hazards incurred in taking a chance on something new and untried. This explains the difference in interest rates on different kinds of investments, and it also accounts for some of the money which the "entrepreneur" receives. He takes his chances at big odds on something which he may or may not be able to put through; and, if he does succeed, he will expect a big return for the risk he takes.

The clearest and simplest classification is that there are three elements in production—land, capital, and labor. Land is a primary necessity and the basis of production, but labor and capital are the true producers, and they earn what they get either in wages or in interest. The landlord gets rent but, *as landlord*, does nothing whatever to earn it. It is true that he may take a chance in buying the land, and it may or may not be a wise investment; but he does not produce the land, nor does the land yield any real return without the cooperation of labor and capital. The fact that he takes a certain risk in buying the land means nothing and does not earn a profit, for a mere change in the holding of title produces nothing. The land was there before he appeared on the earth, will be there after he is gone, and all he does is to acquire it, and collect a toll for its use. This will be discussed more fully when we reach the subject of real estate.

The other non-producer that creeps in is the government. Government protects us from enemies, at home and abroad, and local and state governments often furnish valuable services—roads, pavements, water supplies, schools, the protective services of police, fire and sanitation departments—but generally government, and especially the federal government, collects a toll far in excess of the just price of services rendered. Government lives

by its exactions from the earnings of its people and not by any production of wealth on its part. The exactions of these two non-producers greatly reduce the compensation of the true producers, and diminish the incentive to produce.

The inroads which these two parasitical elements—rent and excessive or unjustifiable taxes—exact must of necessity diminish the return of labor, whether it be in wages for direct productive toil or in interest to pay for the aid given by capital accumulated by labor. Rent is inevitable and inescapable: it is the differential between marginal and better land. But there is a simple and just method by which rent can be returned to all of us in services, to be discussed later. As for the crushing burden of taxation, it could be greatly reduced; as we shall see in a subsequent chapter.

QUESTIONS

“Profits” is a word almost incapable of accurate definition and utterly incapable of any definition as the word is frequently used.

Are profits generally morally justifiable? Is it justifiable to take a profit in the form of honest wages or fair interest?

Is it desirable to encourage productive labor and the accumulation of capital?

Is it therefore desirable that interest and wages should both be as high as possible?

Is there any better gauge of the value of capital than the price paid for its use, in interest, in a fair and open market? Is interest fixed by a fair and open market fairer than one set by a political bureaucrat?

What would you understand by production for service and not for profit and how would the producer be compensated?

Which is the greater cause of poverty and suffering, the profit system rewarding the worker in either wages or interest, or restrictions which close the opportunity for labor?

Do you think that the absolute ownership of land to the exclusion of all who cannot pay rents reduces opportunity for labor?

Could this condition be at least partially relieved by collecting ground rent instead of taxes for the support of government?

What is unearned increment? When it results in private profit, is this profit entirely justifiable?

If a worker employs his labor to produce capital goods instead of receiving wages to be spent, is it fair that he should receive interest on the capital which his labor has provided?